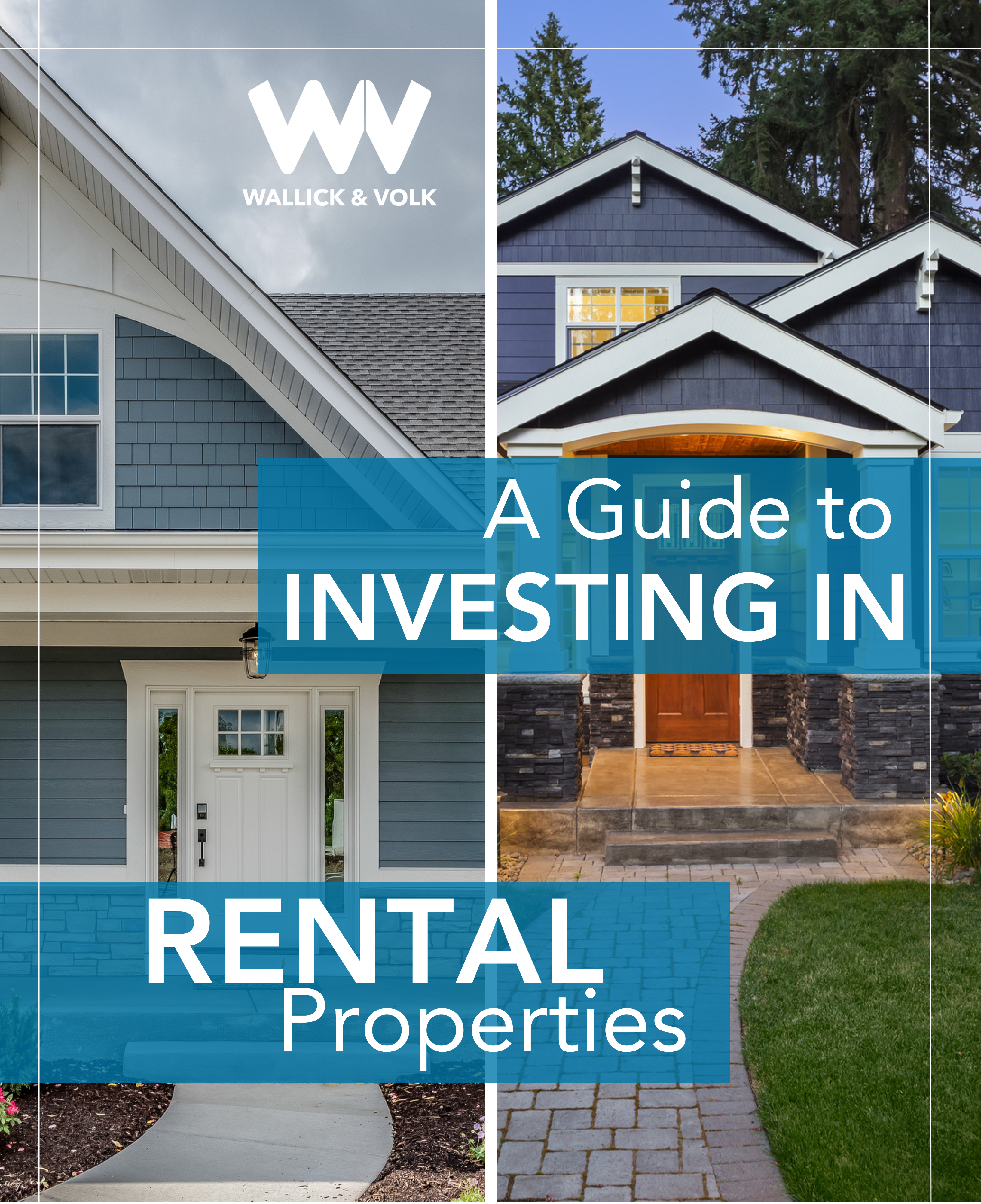

WALLICK & VOLK

A Guide to INVESTING IN RENTAL Properties

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INVESTING IN RENTAL PROPERTIES

Many people looking for investment opportunities can appreciate a good source of passive income. There are many investment options for passive income, like stocks, bonds, exchange-traded funds, mutual funds, and of course, real estate.

Depending on how much time you have available, how much money you have to invest, and how much risk you are comfortable taking will determine what passive stream of income you can commit to. Buying and owning real estate is an investment strategy that can be both satisfying and lucrative. Unlike stocks and bonds, real estate is less volatile, making it a safer investment. Real Estate rental properties can generate consistent monthly income and be refinanced for upfront cash to re-invest.

> *Real estate investing, even on a very small scale, remains a tried and true means of building an individual's cash flow and wealth. - Robert Kiyosaki*

WHAT MAKES A GOOD RENTAL PROPERTY

All real estate investments are long term but the return time varies

At the core, a good real estate investment has a high chance of a significant return compared to your initial investment amount. If your property involves a high level of risk, that risk should be balanced out by the possibility of a high return. Even if you choose investments with a high probability of return, that isn't a guarantee. Before investing money into a property, it's important to do your due diligence first.
You should never make a purchase without reliable property data.

Questions to Ask Yourself Before Buying a Rental Property

1. Are you looking for a long-term or a short-term rental? A short-term rental is corporate rental, VRBO or Airbnb. A long-term rental requires a monthly lease with more liability.

2. Do you have a desired neighborhood? Investing in middle-class or low income neighborhoods can yield the same rental profit but if you plan to sell, profit margins could vary. Middle to Upper-Middle Class homes sell quick to owner occupants and low-income typically sell quicker to investors. However investors do not buy at market value.

3. Do you have your credit score and income inline with obtaining a mortgage? Getting a pre-approval first is a must.

EVALUATING YOUR RENTAL PROPERTY

Although real estate is one of the best investments you can make, without doing the property research, your property can be a bigger liability than an asset. The 1st step is to determine value, costs to buy, and potential profit.

COMPARABLE SALES

Checking the most recent sales activity within at least 1 mile of the rental property will help you determine the estimated after-repair value of your property. You want the size, visual appeal, bed, and bath count comparable. An investment property should always have equity; however, it's up to you to determine how much equity works for you. Typically having 30% equity is the minimum amount you want to have.

REPAIR COST

Even if the estimated value and sales price fits your equity needs. The cost of repairs can turn the property from a deal to a bust. Unless you're experienced with repairing homes, you may want to hire a contractor or property inspector to estimate value. For example, if the ARV is $200,000 and the sales price is $300,000, but the repairs are $50,000, you have 17% equity.

MARKET RENT

When buying a rental property, your stream of income is from rental income. Confirming the market rent in the area is similar to comparable sales. An appraiser more accurately provides this information. The purpose of knowing the market rent is so you can rent at a competitive rate and for you to determine your estimated profit after the mortgage payments, taxes, insurance, and HOA, if applicable, have been deducted.

> *Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world. - Franklin D. Roosevelt*

Pros & Cons

RENTAL PROPERTIES

RENTAL PROPERTY PROS

- Steady passive income
- Appreciating asset
- Several tax deductions
- Option to sell or refinance
- Long-term or short-term options

RENTAL PROPERTY CONS

- Being a landlord
- Managing tenants
- Responsible for repairs
- Inconvenience of vacancies
- Market rent depreciation

Owning rental properties can be an excellent opportunity for individuals with do-it-yourself (DIY) renovation skills, resourceful, and the patience to manage tenants.

With every investment, there is always a risk. The pros of owning an investment property outweigh the cons. Now that you know some cons, preparing to address these issues if or as they occur is essential for a beneficial investment experience.

A LOOK AT SHORT-TERM RENTALS

SHORT-TERM RENTALS

Short-term rentals like corporate rentals, VRBO and AirBnBs are great options. When calculating the daily rate, the overall monthly income for a short-term rental is typically higher than the standard monthly rent.

Although you will be responsible for the maintenance of the property, a short-term rental has a different wear and tear than a long-term rental, where the tenants spend more day-to-day time in the property.

FACTORS TO CONSIDER WITH SHORT-TERM RENTALS

CORPORATE RENTALS - Properties near business parks, large corporation headquarters, and corporate businesses are great locations for a corporate rental.

AIRBNB/VRBO -AirBnBs and VRBO properties have the same appeal with the same customers. The location of these short-term rentals could be anywhere from the city to the suburbs. However, houses near your city attractions or prime areas like downtown, the lake, mountains, shopping, etc., will maximize your profit.

A LOOK AT LONG-TERM RENTALS

LONG-TERM RENTALS

Long-term rentals are, of course, the opposite of short-term rentals. These properties are purchased to establish longer stable income confirmed with a lease agreement of 6 months or more. Instead of a daily rate, you have a regular monthly payment amount which helps when obtaining a refinance or HELOC.

Depending on the lease agreement with your tenant. Long-term rentals give the tenant more responsibility for the upkeep of the property.

FACTORS TO CONSIDER WITH LONG-TERM RENTALS

HIGH-END RENTAL - Rental properties in the middle- to upper-middle-class neighborhoods typically have a higher appreciation rate and lower tenant turnover.

LOW-INCOME RENTAL -These rental properties are a great value and can have some high returns depending on how much equity it has. Unlike high-end rentals, the turn-over rate is typically higher, but they usually rent faster than high-end rentals.

GETTING FINANCED FOR YOUR RENTAL PROPERTY

1. CREDIT SCORE

Most lenders require a minimum credit score of 620; however, there are Non-QM loan programs that offer a minimum credit score of 580. Ultimately having a higher credit score will give you more lending options, a lower rate, and options for a lower down payment.

2. DEBT-TO-INCOME (DTI)

The standard maximum DTI allowed for most loans is 45% and can go as high as 50% depending on compensating factors like reserves and down payment. Non-QM loans are very investor friendly. The most popular investment property loan offered by Non-QM lenders is the DSCR Loan. It requires no income, employment, or a DTI. You're solely qualified based on credit and rental property income, the current rent, or the proposed income based on the appraisal.

3. ASSETS

Having assets is just as important as income. You will need sufficient assets for your down payment, closing costs, and reserves. Buying a rental property poses a greater risk to banks than purchasing an owner-occupied home. If something happens, lenders will want to see you have significant assets to cover the mortgage payments.

4. GET PRE-APPROVED

Getting pre-approved is the first step before actively looking for a rental property. Knowing the max loan amount you're eligible for will help you budget and confirm the type of property you can buy. Real estate agents and sellers are more inviting and willing to work with you when they know you have financing.

Getting
PRE-APPROVED

Getting pre-approved before shopping for your investment property or any real estate purchase is the most productive decision you can make in the home-buying process.

KNOW YOUR BUDGET
When you get a mortgage pre-approval, you're able to set your budgetary limits and make sure that any home you're looking at is a home that you will be able to finance.

BE AN APPEALING BUYER
Most markets go back and forth between these two varieties from season to season and year to year. Whether we're in a seller's or buyer's market, one of the advantages you will want is a mortgage pre-approval.

ROOM TO NEGOTIATE
If you want some repairs or improvements thrown in, or if you want the seller to cover your closing costs or purchase a home warranty, your mortgage pre-approval will help strengthen your position and may make it more likely that you get what you're asking for.

FASTER CLOSING
Securing financing is the first thing that happens when you start to close on a home. With a mortgage pre-approval, financing is already secured. This is a particularly beneficial advantage if the seller is also trying to close sooner rather than later.

Meet
RON CAHALAN

As a Loan Originator, I know from firsthand experience how overwhelming it can be to deal with mortgages. However, I also know that it doesn't have to be this way. The Cahalan Group specializes in helping you understand all of your mortgage and financing options so you can make smart and informed decisions. Get in touch with me today to see what I can do for you. Let's get started so you can start shopping for your rental property this week!

YOU HAVE OPTIONS!

- **CREDIT ISSUES**
- **FLEXIBLE INCOME**
- **NO INCOME**
- **NO DTI**

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